MEDICARE PAYMENT ADVISORY COMMISSION

PUBLIC MEETING

Ronald Reagan Building
International Trade Center
Horizon Ballroom
1300 13th Street, N.W.
Washington, D.C.

Friday, March 19, 2004
9:05 a.m.

COMMISSIONERS PRESENT:

GLENN M. HACKBARTH, Chair
ROBERT D. REISCHAUER, Ph.D., Vice Chair
AUTRY O.V. DeBUSK
NANCY-ANN DePARLE
DAVID F. DURENBERGER
ALLEN FEEZOR
RALPH W. MULLER
ALAN R. NELSON, M.D.
JOSEPH P. NEWHOUSE, Ph.D.
CAROL RAPHAEL
JOHN W. ROWE, M.D.
DAVID A. SMITH
RAY E. STOWERS, D.O.
MARY K. WAKEFIELD, Ph.D.
NICHOLAS J. WOLTER, M.D.

AGENDA ITEM:
Work plans for IRS 990 and data needs studies - Craig Lisk

MR. HACKBARTH: Okay, thank you very much.

Next up is work plans for the IRS 990. This is a topic that a lot of people have been waiting eagerly for.

MR. LISK: We're going to be talking about our work plan for two studies that were in the Medicare Modernization Act that have a very short time frame. They're actually due this June 1st. So they didn't give us very much time to do these studies. The work plan will be reflecting that in some cases. So both David and Jeff and I are working on this project, so I'll be giving the presentation today.

We have two Congressionally mandated reports. The first one is on the use of the IRS Form 990 to report on investments, endowments and fundraising activities of hospitals participating under Medicare and their related foundations that may be also related to the hospital. And the use of the 990s also to examine hospital's access to capital financing. I'll tell you a little bit more in the next slide about what the 990s are.

The second study is on the need for and sources of current data to determine the solvency and financial circumstances of hospitals and other providers of Medicare services.

While the Congress is interested, from this request, in total performance this study does provide us the potential opportunity for us to also examine data needs that we have for Medicare financial performance measures that we use in our payment adequacy framework, for instance. The Commission does not really focus on total financial performance when we're looking at payment adequacy. We're looking mostly at performance under Medicare and other factors that we see there. So this provides an opportunity to potentially use the study to do that as well, if we want.

Again, as a reminder, these reports are due June 1st of this year.

So what are the 990s? The IRS Form 990 is an information return that tax-exempt organizations with revenues of more than $25,000 a year must file annually with the IRS. Such organizations include foundations and hospitals, different charitable organizations, and even school PTAs. So it's a wide variety of organizations that file these forms. It's an information return. So it's not used for any tax purpose in determining what taxes they may need to pay because these are tax-exempt organizations. So it just is used for information.

The form was designed though by the IRS to help the IRS and state charity regulators ensure that non-profit organizations remain true to their charitable purpose.

The 990s contain unaudited financial information on not-for-profit organizations. Thus, private not-for-profit hospitals generally file 990s. Their parent organizations and the hospitals themselves, their related foundations as well.

So this means about 60 percent of hospitals would be filing 990s. The data on the 990s include revenue and expense information, asset information, a statement of functional expenses broken into program services, management cost, and fundraising and a balance sheet. And that other set is again looking at the charitable purposes of those foundations, of those organizations.

The form also includes information on related organizations in terms of transactions that take place between different organizations that may be related between one another. The data is available about one year after the close of the organization's fiscal year.

The data is actually publicly available. The GuideStar produces 990s and actually you can see the raw copies on GuideStar, which has a web site, and the National Center for Charitable Statistics, which is an organization within the Irwin Institute, actually does digitize much of the information on the 990s.

In terms of the major issues on the 990 study, the primary issue is would information on the 990s help to provide a complete picture of a hospital's financial condition and the available resources that they may have available to them to supporting their operations. This is the primary interest that the Congress appears to be interested in, to provide a more complete picture of a hospital's finances by identifying investments in endowment and fundraising activities of hospitals and their related foundations.

The 990s, for instance, may be able to identify related foundations that hold assets for the hospital which may not appear on the hospital's balance sheet, for instance. It also could identify transfers of revenues from or to the hospital from other related organizations which could alter the total financial picture outlook that we would view for the institution.

The basic issue is whether the 990s can help provide a more complete picture of finances with this information.

The second issue, though, is whether it's practical to systematically use the 990 data for collecting this information. And as I'll go into with this next slide, hospitals are complex organizations and this is just one example of one hospital. And it's important for us to take a look at the organizational structure because this also affects the information that we see on the 990s.

The 990 data can be difficult to track for hospitals when we take into account the entire organization.

First, an individual hospital's 990 generally does not provide a complete picture of the organization's finances, since endowment and fundraising activities are often reported by one or more related organizations that also file, if they're not-for-profit, separate 990s.

The above organizational chart shows how a hospital may fit into the organization with a parent company that contains the hospital and a nursing home, for instance. In some cases, the parent company may hold more than one hospital. A separate foundation that raises money and holds money for the hospital for charitable purposes, and also supporting the hospital's operation, and other business entities that may be for-profit, for instance, or that the organization has some partial investment stake in.

So financial support can occur between, with treasures of funds going between a parent organization and the hospital, between the foundation and the hospital, or even between the hospital and a nursing facility, for instance. These types of transfers occur and the 990s can help shed light on this.

But again, each of these non-profit organizations within this framework are potentially filing separate 990s. Now there's other cases where you also have a university that may file just one 990 and there's no information actually on the hospital in that case but the university holds it and there's not necessarily a separate 990 filed. So you would have different circumstances that occur here.

MR. HACKBARTH: Craig, on that point, are they indexed, if you will, in a way that you can readily accumulate the 990s of related organizations?

MR. LISK: No, that's part of the problem. That actually gets to the second issue, one part of the second issue, that reporting on the 990s is that much of the information is contained in attachments. And those attachments are not actually digitized. So the information on the related organizations is included in the attachments, for instance. So you actually also need to figure out from that then what other organizations are related to that hospital and then go back and look at those 990s to get more information on those facilities.

So it's possible that we can look at the 990s and it takes a lot of effort. And we'll be going into more of that at the next meeting when we will have more information presented specifically from these forms.

So the study we are planning to conduct will examine the feasibility of using the 990s to collect information on investments, endowment and fundraising of hospitals and related organizations and the use of the 990s to assess hospital's access to capital. For this analysis we have Dr. Nancy Kane at Harvard School of Public Health who is conducting an analysis of the 990s for us. Dr. Kane has used the 990s in a variety of studies and is a

recognized expert on hospital financial analysis. And she'll be presenting her findings at the April commission meeting.

For a small sample of hospitals, she'll be examining the relationship of investment, endowment and fundraising to hospital's total financial position, examine financial transactions among hospitals and related entities such as affiliated foundations, compare 990 financial data with other sources including audited financial statements and Medicare cost reports.

And that part of the analysis will also be relevant to the second study that we're talking about, too, in terms of what does Schedule G on the cost reports tell us on the hospital side. Schedule G, which is the part that gives us the total financial information about hospitals and how do these different forms compare.

And then finally, evaluate the level of effort that would be required to systematically collect this data on a larger group of hospitals.

Now we are looking at a small sample of hospitals and because of the time frame, just to give you fair warning, it's more of a convenient sample in terms of hospitals that she has more or less looked at in the past with some additions. So it's not going to be purely 100 percent representative sample across the country.

Next, I want to move on to discuss the data needs study. Again, we have a very short time frame for this study, again due June 1st. The Congressional request for the data needs study, as we previously mentioned, is focused on the need for current data and sources of current data available to determine the financial circumstances of hospitals and other Medicare providers of services.

Thus, for this project we could focus only on the data needs for measuring total financial performance of providers but obviously we'll also suffer from data needs for looking at Medicare financial performance, as well. Thus, we could use this study to report on both sets of issues.

Again, the Commission's principal focus in terms of what we need data for is on looking at Medicare. So the question that Congress is asking is different from what the Commission normally looks at, whether Medicare payments are adequate to cover provider's cost of caring for Medicare beneficiaries.

The Commission, though, needs timely, accurate and consistent data to support its payment adequacy framework and also help in evaluating the distribution of payment. Thus, it's probably value to consider data needs for measuring performance in total as requested by the study and under Medicare to fulfill our needs.

For this analysis, we will be examining different measures for analyzing provider's financial circumstances,

margins, change in cost, utilization, cash flow, and other financial measures. We will examine the strengths and weaknesses of the available data that we have, and how that data could be improved. Some of the issues that we come up with here are issues that, for the cost reports for instance, and we're looking at it, the data is not audited, for instance. So is there any gain that we would get from auditing , in terms of getting more accuracy in their cost allocation issues, charge setting practices and other types of things we could be considering.

We plan to examine data needs for hospitals and other providers of Medicare services, including home health agencies, skilled nursing facilities and dialysis facilities.

So in terms of the timeline, we are going to be meeting with some government and other experts who use the Medicare data in looking at financial performance and also in terms of total financial performance to get some of their input in terms of ideas of what concerns they have, as well, with the Medicare data but also in terms of what they find best is for measuring total financial performance as is requested by the Congress.

We will be presenting findings from our analysis of the 990 and data needs studies at the next commission meeting with a draft report to follow, with a final report to be submitted to Congress June 1st of 2004.

So with that we'd be happy to answer any questions or take whatever comments you have.

DR. NEWHOUSE: I want to comment on the second study and push an old recommendation of mine.

If I think about what the Congress wants here at a generic level and what they actually get now, what they get is stale data. If they want it audited it's even staler. And then, with respect to the 990s, Craig, and the separate operations and I think in accounting terms what one would say is they would want a statement of consolidated operations.

It seems to me those, as you say they're not going to get that out of the 990s and they're not going to get it out of the current system at all. That we should say that they should do is there should be some kind of sample of hospitals, pay them if need be. And these hospitals would have reports, financial statements that would be signed off by an external auditor within 90 days and would include consolidated operations.

I'd be interested in Jack and Ralph and Nick's views. I assume your hospitals have, in the end, audited financial statements within some period of time. I don't know what that period of time is.

MR. MULLER: It's general faster than the 990. So the audited statements usually would be three or four months after the end of the year. Obviously much faster,

therefore, than the Medicare cost reports. And the 990s usually lag about a year. So in terms of timeliness, audited is the most timely, 990s second, and Medicare cost third.

DR. NEWHOUSE: What I'm thinking of is basically the analog to a 10-K in a publicly held corporation. It seems to me it ought to be available to the Congress and it would answer what they're asking for here, at least would get us along the road much further than we are now.

MR. MULLER: I do know there have been efforts made over the course of the last couple of years to have more timely information and which the Hospital Association, among other groupings, has made that information available. I don't know whether some information is available from the for-profit hospitals but obviously in all of the Congressional debates as well as here, having more timely information -- we commonly talk about the three-year lag. I mean, obviously any kind of timely information we're better off having it.

I don't know what the percentage compliance is but Craig you may know, on the AHA database what are we getting, 30 or 40 percent sampling now?

MR. LISK: On the AHA? It's more than that, 65 maybe.

Actually in terms of what Joe is talking about though, is one concept is Schedule G on the cost reports, which is the part that measures the total financial performance, predates even the PPS for hospitals and has not been revised. One idea is some form of standardized audited financial statement to replace that, for instance. And Joe raises a good point in terms of whether it's a consolidated financial statement for the entire organization, in terms of capturing all of those pieces. Or is it better just have the individual hospital, independent of those other pieces, is another issue, too. Or some information that provides both.

DR. NEWHOUSE: -- this to the analog of FASB, I would think.

DR. WAKEFIELD: Craig, on the data needs study, are you looking at both for-profit and not-for-profit categories of Medicare providers?

MR. LISK: Yes.

DR. WAKEFIELD: You mentioned four categories of Medicare provider that you're going to focus on, ESRD, home health, SNF and hospitals. Is there a reason why -- maybe it's just timing, since this has to be done so quickly -- why ASCs are not included? Or is it some other reason?

MR. LISK: We can probably write a little bit on the ASCs and saying that there are no cost reports for the ASCs. So we actually don't have any information. And that might be where we leave it at. And the same is true, as Sarah just said, for physicians, too. Ideally we might have

something on physicians, but again we don't actually have that.

DR. WAKEFIELD: Be mindful of the difficulty we had in coming to our decisionmaking related to ASCs. It seems to me it would be helpful to at least identify those difficulties with that category, too, if you have the time.

MR. LISK: But there is this timeframe issue, too.

DR. WOLTER: On the 990, and I am certainly no expert, but in addition to the multiple entity issue just the definitions around what goes in what line, I think, create enough variation from one institution to another that often times it's difficult to compare apples to apples. We do occasionally pull 990s of other institutions and look at them and try to compare ourselves for one reason or another. It's difficult.

MR. LISK: That's a very good point and that was an issue that Nancy Kane raised with me about the digitized portion that NCCS does is that there are times where people change what actually is reported on a line. But the people who are digitizing it don't take that into account. So realistically, to really get the full flavor, you have to look at the raw form.

DR. WOLTER: Just the other point I would like to make, I think that if out of this we could create some momentum toward our own Medicare data that would allow us to have a better understanding of margins, inpatient, outpatient, SNF, I think it's been very appropriate that we have begun emphasizing overall margins. But once we get beyond that it's very, very hard to make update decisions because of the issues we have about really understanding those other payment systems. So that may be difficult in this timeframe, but it would be nice if it at least created a platform for ongoing work in that regard.

DR. MILLER: To that point, Nick, I was hoping that beyond things like actually assessing the instruments what could you know from these things? And what kind of state are they in? Are they actually really workable? We do see this as an opportunity to articulate the principles and issues that in a perfect world -- and timeliness is part of this. And I think the notion of a sample will come into this discussion. But to try and talk about for our own work what we would ideally have. So I think that that thought is contemplated.

MR. MULLER: I think it's important to note that for most of what we're interested in here, the 990s are very clumsy instruments. It doesn't have a level of granularity and so forth.

So I think we're going to find it's not very helpful. And it doesn't have anywhere near the level of detail you need to really understand cost structured and so forth. So we'll see what you find.

MR. HACKBARTH: That may make the report easy to

write. Thank you very much.